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Financing Corporation

Hearing Date: October 14, 2009 at 10:00 a.m.
Objection Deadline: October 8, 2009

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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| In re | Chapter 11 |
| LEHMAN BROTHERS HOLDINGS INC., *et al.*, | Case No. 08-13555 (JMP) |
| | (Jointly Administered) |
| Debtors. | |

**DECLARATION OF PETER SHAPIRO IN SUPPORT OF MOTION OF THE TOBACCO SETTLEMENT FINANCING CORPORATION FOR AN ORDER (A) COMPELLING LEHMAN BROTHERS SPECIAL FINANCING INC. TO ASSUME OR REJECT EXECUTORY CONTRACTS PURSUANT TO 11 U.S.C. § 365(d)(2) OR, ALTERNATIVELY, (B) MODIFYING THE AUTOMATIC STAY TO ALLOW THE TOBACCO SETTLEMENT FINANCING CORPORATION TO TERMINATE THE AGREEMENTS**

I, Peter Shapiro, hereby declare pursuant to 28 U.S.C. § 1746:

1. I am the founder and Managing Director of Swap Financial Group, LLC ("SFG"), a New Jersey limited liability company formed in 1998 and located at 76 South Orange Avenue, South Orange, New Jersey 07079. SFG is the nation's leading independent advisor to issuers and end users of derivative products.

2. I have over twenty (20) years of experience as a senior financial markets professional in the areas of public finance and financial derivatives products. Among other things, I am the former head of Citibank's public finance group, where I supervised the first

tender option bond program. I also began structuring tax-exempt swaps, caps, floors and collars early in the history of the derivatives market, including before the establishment of the SIFMA/BMA Index. A more detailed description of my background and professional experience is contained in the biography that is attached hereto as Exhibit A.

3. SFG has been retained to assist the Tobacco Settlement Financing Corporation ("TSF") in connection with the above-captioned bankruptcy cases filed by Lehman Brothers Holdings Inc. and its affiliates. I am the person at SFG responsible for the TSF matter, and I am familiar with the facts set forth herein and am authorized to make this Declaration on TSF's behalf.

4. I have reviewed the Reserve Fund Agreement dated as of June 19, 2003 (the "June 2003 RFA") by and between TSF, as issuer (the "Issuer"), Lehman Brothers Special Financing Inc. ("LBSF") and the Bank of New York ("BONY"), as trustee (the "Trustee") for TSF. I have also reviewed the Indenture dated as of June 1, 2003 (the "June 2003 Indenture"), by and between TSF and BONY, as trustee, pursuant to which TSF issued certain Asset-Backed Revenue Bonds, Series 2003A (Stage Contingency Contract Secured) (the "Series 2003A Bonds").

5. I have also reviewed the Reserve Fund Agreement dated as of December 2, 2003 (the "Dec. 2003 RFA" and together with the June 2003 RFA, the "RFAs") by and between TSF, as Issuer, LBSF and BONY, as Trustee for TSF. I have also reviewed the Indenture dated as of December 1, 2003 (the "Dec. 2003 Indenture" and together with the June 2003 Indenture, the "Indentures") by and between TSF and BONY, as trustee, pursuant to which TSF issued certain Asset-Backed Revenue Bonds, Series 2003B (State Contingency Contract Secured) (the "Series 2003B Bonds" and together with the Series 2003A Bonds, the "Bonds").

6. The RFAs and the Indentures are common forms of such agreements used by tobacco settlement authorities to securitize the proceeds such states are owed under a master settlement agreement they entered with various tobacco companies in or about 1998.

7. The RFAs establish investment vehicles pursuant to which TSF is able to invest certain reserve funds (the "Reserve Funds") the Indentures require the Trustee to maintain as a source of backup payment for TSF's debt service obligations under the Bonds. In broad terms, the RFAs enable TSF to invest the Reserve Funds by purchasing qualifying securities from LBSF at purchase prices that are constructed to ensure that TSF receives a 3.722% guaranteed annual rate of return on its investments under the June 2003 RFA and a 4.687% guaranteed annual rate of return on its investments under the Dec. 2003 RFA.

8. The RFAs contain provisions for calculating amounts due from one party to another if or when the agreements are terminated. The rights and obligations at termination are highly sensitive to fluctuations in market rates of interest. Interest rates are the primary determinant of the replacement costs of the RFAs. To determine the termination payments that are due in the event of early terminations, it is necessary to first determine the replacement costs. Generally speaking, if rates have dropped, the RFAs will be "in the money" to TSF, and if rates have risen, the RFAs will be "in the money" to LBSF. This means that, at any given time, LBSF or TSF may be "in" or "out of the money" under the RFAs. To say that a party is "out of the money" at a particular time effectively means that if the RFAs were terminated at that time, then a termination payment would be owed to the counterparty.

9. As of September 17, 2009, LBSF was "out of the money" under the June 2003 RFA and, if the June 2003 RFA was terminated on September 17, 2009, the "Termination Amount" owed to TSF under the RFA would be roughly $41,243,786.26. LBSF has been "out

of the money" under the June 2003 RFA at all times since LBSF's bankruptcy filing on October 3, 2008.

10. As of September 17, 2009, LBSF was "out of the money" under the Dec. 2003 RFA and, if the Dec. 2003 RFA was terminated on September 17, 2009, the "Termination Amount" owed to TSF under the Dec. 2003 RFA would be roughly $78,446,410.44. LBSF has been "out of the money" under the Dec. 2003 RFA at all times since LBSF's bankruptcy filing on October 3, 2008.

11. The market for tobacco settlement backed bonds and related agreements such as the RFAs has changed since 2003. Interest rates on tobacco settlement backed bonds have increased sharply, while general market rates have declined, and the creditworthiness of tobacco settlement backed bonds has changed adversely. As a result of these changes in the market, it is highly unlikely that any market participants would be willing to assume LBSF's obligations under either of the RFAs.

I declare under penalty of perjury that the foregoing is true and correct.

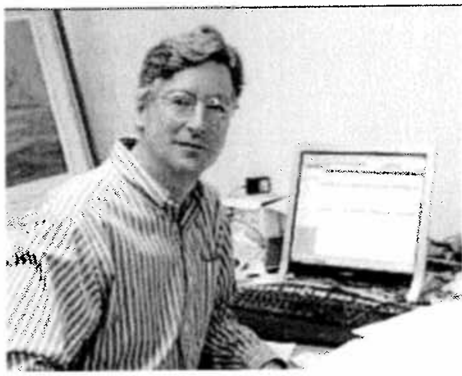
Executed on September 25, 2009

Peter Shapiro

# EXHIBIT A

# *Swap Financial Group*

The leading independent swap advisor



## Peter Shapiro

Swap Financial Group
76 South Orange Avenue, Suite 6
South Orange, NJ 07079
(973) 378-5500

**Title:**

Managing Director

**Role:**

Primary contact. Day-to-day project management, strategic advice, transactional analysis, documentation negotiation.

**Relevant Experience:**

20 years experience as a senior financial markets professional in the areas of public finance and financial derivative products. After more than a decade of governmental service, joined Citibank as an investment banker in the public finance area; became head of public finance, and shifted the business to focus exclusively on tax-exempt derivative products. Supervised first tender option bond program. Began structuring tax-exempt swaps, caps, floors and collars early in market's history, prior to establishment of the SIFMA/BMA Index. At Euro Brokers, headed up tax-exempt and end-user activities for the firm; built successful program for issuers to access swap market through competitive bidding on complex derivative structures that previously had been done only by negotiation. Founded Swap Financial Group in 1998. Handles the firm's senior client relationships, including major state agencies.

**Education:**

Harvard University, A.B. 1974 cum laude; Harvard Kennedy School of Government, State and Local Government Executives Program, 1979.

**Work:**

Managing Director, Swap Financial Group, 1998 - present; Senior Vice President, Euro Brokers, 1993 - 1997;

Vice President and Department Head, Citibank, 1987 - 1993; County Executive, Essex County, New Jersey, 1978 - 1986; State Legislator, New Jersey State Assembly, 1976-1978.

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